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No. 10-1119

IN THE
Supreme Court of the United States

THOMAS STEINBECK AND BLAKE SMYLE,
Petitioners,

v.

MCINTOSH & OTIS, INC., ET AL.,
Respondents.

On Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Second Circuit

REPLY BRIEF FOR PETITIONERS

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The proper construction of the Copyright Act's termination provision has substantial real-world consequences for authors and their heirs. Although this case arises in the context of a dispute between John Steinbeck's son and granddaughter and his third wife's children, that fact does not obscure the important legal principles that now divide the country's two main centers of intellectual property. Respondents and their *amicus* seek to evade this Court's review by offering an array of procedural objections and case distinctions, but the delay they seek in this Court's ultimate resolution of the conflict between the Second and Ninth Circuits will merely consign the families of authors to continued uncertainty over the scope of statutory rights conferred by Congress. Close scrutiny of respondents' deflections reveals that they offer no meaningful impediment to this Court's review.

1. The Conflict Between The Second And Ninth Circuits Is Patent And Entrenched

Respondents' attempt to minimize and explain away the clear conflict between the Second and Ninth Circuits has no merit. The Copyright Act permits statutorily defined persons to terminate pre-1978 grants of copyright interests "notwithstanding any agreement to the contrary." 17 U.S.C. §§ 203(a)(5), 304(c)(5); *see id.* § 304(d)(1). Respondents contend that both the Second and Ninth Circuits have held that, whenever an agreement between a copyright holder and its assignee purports to "revoke and renegotiate" a pre-1978 grant, the termination provision does not apply because "no pre-1978 agreement remain[s] to be terminated." Opp. 20. That assertion misapprehends the holdings in *Milne ex rel. Coyne v. Stephen Slesinger, Inc.*, 430 F.3d 1036 (9th

Cir 2005), and *Classic Media, Inc. v. Mewborn*, 532 F.3d 978 (9th Cir. 2008).

Those cases interpreted the phrase "notwithstanding any agreement to the contrary," with the Ninth Circuit recognizing a finely crafted rule for establishing when a post-1978 agreement is an "agreement to the contrary." A post-1978 agreement is an enforceable agreement superseding statutory termination rights (rather than an "agreement to the contrary") only when the copyright holder concluding the post-1978 agreement has the current ability to terminate the pre-1978 grant. The *Milne* court repeatedly emphasized the importance of the bargaining power conferred by the present availability of the termination right in validating a post-1978 agreement. *See, e.g.*, *Milne*, 430 F.3d at 1040 ("faced with the possibility that Christopher might seek to terminate the rights Disney had received in 1961 . . . , Disney proposed that the parties renegotiate"); *id.* ("Christopher therefore agreed not to seek termination of the existing arrangements in return for executing the new arrangement."); *id.* at 1046 ("The Pooh Property Trust recognized the perceived right to terminate as a valuable bargaining chip, and used it to obtain an advantageous agreement that doubled its royalty share . . . . Thus, the 1983 agreement exemplifies the increased bargaining power that Congress intended to bestow on authors and their heirs by creating the termination right under the 1976 Copyright Act.").

In contrast, the *Mewborn* court emphasized that the copyright holder who entered the 1978 agreement did not have a current right to terminate the pre-1978 grant and that the 1978 agreement did not secure to the copyright holder the advantages of the increased bargaining power Congress intended to

bestow in the 1976 Act. *See Mewborn*, 532 F.3d at 989 ("Mewborn . . . would not have the right to serve the advance notice that would vest her [termination rights] until at the very earliest six years later."). *See* Pet. 15.

The *Mewborn* court's own language disproves respondents' assertions that the different outcomes in *Milne* and *Mewborn* are premised on whether the copyright holder purported to revoke and renegotiate the pre-1978 grant in a subsequent agreement. In rejecting the district court's reliance on *Milne*, the court of appeals stated:

> *Milne* presented quite a distinct factual scenario with very different statutory implications. Whereas Mewborn in 1978 did not even have the right to serve an advance notice of termination so as to vest her termination rights as to the Lassie Works, and could not have served advance notice for another six years as to the story and eight for the novel, the heir in *Milne* had the present right to serve an advance notice of termination, and could exercise it at any moment.

Mewborn, 532 F.3d at 987.*

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* If *Mewborn* were truly consistent with the decision below, as respondents contend, then the Ninth Circuit would have affirmed the decision before it that had advanced much the same argument as the Second Circuit later adopted in this case. But the *Mewborn* court—starkly highlighting the conflict with the decision below—instead relied on the district court's original decision in this case (ruling in petitioners' favor) that the Second Circuit later reversed. *See* Pet. 17. The leading commentators on copyright law similarly perceive a stark conflict between the Second Circuit below and the Ninth Circuit. *See* Pet. 23–29 (citing *amicus* brief and writings of Professors Menell and Nimmer).

Disregarding the Ninth Circuit's own characterization of the distinction between *Milne* and *Mewborn*, respondents assert that the different outcomes are really attributable to the different language used in the two post-1978 agreements and whether they purported to revoke and renegotiate the pre-1978 grants or not. Opp. 20. A fair reading of *Mewborn* belies that contention. Although *Mewborn* repeatedly emphasized the importance of the imminent threat of termination in *Milne* and the absence of that imminent threat in *Mewborn*, it devoted only two sentences to the observation that the 1978 agreement in *Mewborn* did not purport to revoke the prior grant. *Mewborn*, 532 F.3d at 989. Even then, it did so only to "further underscore[] the different nature of the intended agreements." *Id.* That secondary reliance on the parties' differing intents regarding revocation dispels respondents' claim that this factor is the foundation of the Ninth Circuit's rule.

Rejecting the Ninth Circuit's approach, the Second Circuit below held that Elaine's 1994 agreement eliminated petitioners' statutory termination rights even though Elaine lacked the power conferred by statute to wield the threat of imminent termination and could not benefit from the increased bargaining power that Congress intended to bestow. *See* App. 32a-34a. The court below dismissed as irrelevant the inability of Elaine or petitioners, acting alone, to exercise termination rights in 1994. *See* App. 30a & n.5. In holding that the 1994 agreement was not an "agreement to the contrary," the decision below directly conflicts with *Mewborn*.

2. The Decision Below Is Inconsistent With The Plain Language Of The Statute And Congressional Intent

Not only is respondents' reformulation of the Ninth Circuit's rule inconsistent with the express language of *Mewborn*, the rule it advances (adopted by the Second Circuit below) is inconsistent with the plain language of the statute and Congress's intent in enacting it. The Second Circuit's interpretation of the phrase "any agreement to the contrary" permits copyright holders to eliminate statutory termination rights simply by characterizing their post-1978 agreements as revocations of prior grants. In this manner, any copyright holder could eliminate termination rights for any pre-1978 grant. The termination rights that Congress expressly created become worthless. Respondents' rule imposes no logical limit on a copyright holder's ability to unilaterally eviscerate statutory termination rights, notwithstanding Congress's express intent to create these rights and vest them in a statutorily defined class of artists' heirs—a class that does not include any of the present respondents.

Respondents' attempt to mitigate the extraordinary reach of the Second Circuit's holding by baldly asserting that under their interpretation the phrase "agreement to the contrary" still "has vitality in many different circumstances" (Opp. 30) falls short. Tellingly, they offer only two very limited examples in support of their claim, neither of which provides any real substance to the statute—one when there is no post-1978 agreement at all and the other when an agreement attempts to recharacterize creative work as a work-for-hire, which is not subject to termination rights. Opp. 30–31.

3. The Meaning Of The Phrase "Any Agreement To The Contrary" And The Preservation Of Statutory Termination Rights Are Matters Of Great Importance

Given the dominance of New York and California as repositories of the country's intellectual property, respondents do not dispute that an entrenched conflict between the Ninth and Second Circuits implicates an extraordinary amount of valuable copyright interests, from books to films to music. Rather, respondents suggest that the issue presented in this case does not raise "broader policy concerns." Opp. 31. Even if respondents were right about the scope of policy, the intractable conflict between the Second and Ninth Circuits concerning the interpretation of an important federal statute warrants this Court's review. Those decisions will guide contracting and counseling over important contract rights in the two main centers for copyrights—New York and California. Absent resolution by this Court, that conflict will create uncertainty for such rights-holders and their heirs.

Respondents dismiss the likelihood that the Second Circuit's erroneous interpretation of the phrase "any agreement to the contrary" in § 304 will have negative repercussions for termination rights under § 203(a)(5), which incorporates identical language, by pointing out that § 203 "is not limited to grants made before 1978." Opp. 31. But the concern that identical language in two provisions of the same statute will be interpreted consistently does not dissipate depending on the timing of the relevant grants. To the contrary, the inclusion of the same phrase in § 203(a)(5) makes it likely that questions about the proper interpretation of the phrase "any agreement

to the contrary" will continue to arise indefinitely, and the existence of a conflict on the issue ensures ongoing confusion.

Respondents also argue that this issue does not warrant the Court's attention because the termination provisions created by Congress are so "intricate" that they "'are barely used.'" Opp. 32 (quoting William Patry, *Choice of Law and International Copyright*, 48 AM. J. COMP. L. 383, 447 (2000)). The complexity referred to in the quoted article, however, involves merely the requirement of counting years to determine when the termination window opens and when notice must be given. The real bar to an artist's reliance on the rights granted by Congress is likely to be the creation of unjustified judicial doctrines (such as the Second Circuit's) that undermine those rights. Even if respondents were correct, it would make no sense to urge this Court to abstain from resolving a conflict that adds further confusion to the statutory scheme.

Finally, respondents attempt to divert the Court's attention from the important statutory interpretation issue raised by this case by characterizing it as a family dispute about a will. That deflection is both incorrect and irrelevant. Whatever the context, this case squarely presents the conflict and gives this Court the opportunity to resolve it. Termination rights are already important for artists and their families, and those rights will become more important as more copyrights move into the termination window. Despite the great number of copyrights that will be affected by the decision here, most disputes will not be worth enough to justify the cost of bringing a case through the entire litigation process. By resolving this conflict now, the Court can ensure that

rights-holders will know the scope of their statutory rights.

4. The District Court's Certification Of A Rule 54(b) Judgment Before The First Appeal Does Not Bar This Court From Granting The Current Petition

Respondents argue that this Court lacks jurisdiction to consider the question presented because the "district court entered a *final* Rule 54(b) judgment." Opp. 14 (italics in original). That argument is unpersuasive. The initial Rule 54(b) judgment entered by the district court was reversed by the court of appeals, which returned the case to the district court. In the separate litigation involving Penguin, the district court then entered a final judgment on the termination validity question (the only issue in that case). But the district court did not enter any further separate judgment on the termination validity question in this case. The district court entered no other judgment until March 2009, when it entered the judgment from which the instant appeal was taken. Thus, the termination validity question remains an issue properly presented for this Court's review.

Respondents' *amicus*, Penguin, also argues that the court of appeals' failure to discuss the validity of the terminations in its second opinion should prevent this Court from granting certiorari. Penguin Br. 14 & n.4. But the Second Circuit had no reason to revisit the termination validity question because that court had already decided the issue. Under the law-of-the-case doctrine, it would necessarily defer to its previous ruling on that matter. *See, e.g., United States v. Salerno*, 932 F.2d 117, 121 (2d Cir. 1991). The absence of a redundant discussion of an issue by the court of appeals has no bearing on whether this

Court may consider that issue. *See, e.g., Stewart v. Dutra Constr. Co.*, 543 U.S. 481 (2005); *National Credit Union Admin. v. First Nat'l Bank & Trust Co.*, 522 U.S. 479 (1998).

Because the only separate judgment on the termination validity claims was reversed by the court of appeals, those claims are now part of the case as a whole. Thus, this Court retains jurisdiction over those claims and may properly grant this petition.

5. Collateral Estoppel Does Not Bar Petitioner's Claim In This Court

Collateral estoppel functions to prevent endless relitigation of issues and helps to safeguard against inconsistent results. The rule proposed by respondents, however, would unduly restrict this Court's actions and create tension with the tenet that denials of certiorari have no precedential effect.

Petitioners litigated the issue of the validity of their terminations in two cases: one involving Penguin and one involving respondents. When the court of appeals reversed the judgment in their favor in both cases, petitioners filed a petition for a writ of certiorari, which this Court denied. Because the validity of the terminations was the only issue in the case involving Penguin, final judgment was entered in that case shortly after this Court denied certiorari. As noted above, petitioners' case against respondents continued through another appeal, which gave rise to the current certiorari petition.

Respondents argue that this Court cannot consider the validity of the terminations in this case because the judgment in Penguin's case is final. But, were respondents' rule to be followed, the Court could hear an issue only in the first case that presented it, no matter what other problems might exist. A denial

of certiorari in that first case would put the issue permanently beyond the reach of this Court, even though that issue had originally been presented to the Court in an interlocutory posture (as in this case). That argument presents an obvious tension with the rule that a denial of certiorari has no precedential effect. *See, e.g., Brown v. Texas*, 522 U.S. 940, 942–43 (1997) (opinion of Stevens, J., respecting the denial of the petition for writ of certiorari) ("My primary purpose in writing . . . is . . . to reiterate the important point that the Court's action in denying certiorari does not constitute either a decision on the merits of the questions presented . . . or an appraisal of their importance."); 16B CHARLES ALAN WRIGHT, ARTHUR R. MILLER & EDWARD H. COOPER, FEDERAL PRACTICE AND PROCEDURE § 4004.1, at 34–39 (2d ed. 1996 & Supp. 2011). It is difficult to reconcile respondents' proposed rule with this Court's holding that a dismissal of certiorari as improvidently granted in the same case "did not establish the law of the case or amount to *res judicata* on the points raised." *Hughes Tool Co. v. Trans World Airlines, Inc.*, 409 U.S. 363, 365 n.1 (1973).

Respondents justify their rule by drawing an analogy to cases in which no appeal was taken or a certiorari petition was abandoned. *See* Opp. 18 (citing *Montana v. United States*, 440 U.S. 147 (1979); *Parimar Corp. v. Paramount Pictures Theatres Corp.*, 347 U.S. 89 (1954)). But in this case, petitioners did not abandon the appeal at any point; their petition for a writ of certiorari was denied in the Court's discretion, an act that is not a decision on the merits of the issue. This situation is thus more analogous to a case in which no appeal was available and collateral estoppel would not apply. *See* RESTATEMENT (SECOND)

OF JUDGMENTS § 28 (1982). Thus, this Court is not barred from considering the question presented.

Respondents and their *amicus* also err in stating that "there is no relief that this Court could possibly grant" without nullifying the judgment in favor of Penguin. Opp. 18; *see* Penguin Br. 9. A holding that the termination notices were valid could be given effect through the award of damages or the establishment of a constructive trust to make petitioners whole for the amounts they would have received following a valid termination. Such relief would require no alteration to the earlier judgment for Penguin in the case not before this Court.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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